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LIMITED OFFICIAL USE SECTION 01 OF 05 BOGOTA 01423

E.O. 12356: N/A  
 TAGS: EPET, EINV, CO  
 SUBJECT: INVENTORY OF OCCIDENTAL'S PROBLEMS IN COLOMBIA

1. ON FEBRUARY 2, [REDACTED]

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[REDACTED] GAVE THE AMBASSADOR AN INVENTORY OF OXY'S CURRENT AND POTENTIAL PROBLEMS IN COLOMBIA (TEXT BELOW) AND AN "AIDE MEMOIRE" DETAILING THE CURRENT STATUS OF THE TAX CASE RELATED TO THE SALE OF CITIES SERVICE PETROLEUM COMPANY (TEXT BEING POUCHED TO ARA/AND). WHILE THE INVENTORY BLAMES ALL OF OXY'S DIFFICULTIES ON POLITICAL OPPORTUNISM ON THE PART OF GOC AND ECOPETROL OFFICIALS, DESPITE OXY'S "COOPERATIVE AND FLEXIBLE ATTITUDE," IT IS A USEFUL SUMMARY OF THE CURRENT STATE OF OXY'S RELATIONS WITH THE GOC.

BEGIN TEXT OF INVENTORY:

- A. AN OVERVIEW OF THE SITUATION
- B. CONTROVERSIES BEING RESOLVED

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- 1) THE ASSIGNMENT OF OXY TO COLCITCO IN 1983
- 2) 1985 WITHHOLDING TAXES AUDIT
- 3) THE FREE ZONE FOR THE MARINE TERMINAL
- 4) PIPELINE OPERATION

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UNITED STATES DEPARTMENT OF STATE  
 REVIEW AUTHORITY: OSCAR J. OLSON  
 DATE/CASE ID: 24 OCT 2002 200201334

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- 5) THE COST OF THE FLOATING STORAGE UNIT
- 6) CRUDE SALES AGREEMENT

## C. POTENTIAL NEW CONTROVERSIES

- 1) PIPE FOR THE SUBMARINE PORTION OF THE PIPELINE
- 2) 1985 TRANSACTION WITH SHELL

## D. OTHER ISSUES - ADVERSE PUBLICITY AND UNFOUNDED RUMORS

- 1) THE ASSOCIATION (OXY/SHELL/ECOPETROL) PIPELINE
- 2) ADVANCED PURCHASE OF TUBULARS FOR BECHTEL
- 3) UNFOUNDED RUMORS ON PAYMENTS TO GUERRILLAS AND GOVERNMENT OFFICIALS

## A. AN OVERVIEW OF THE SITUATION

THE MAGNITUDE AND IMPORTANCE OF THE CANO LIMON PROJECT TO THE COLOMBIAN ECONOMY AND THE AGGRESSIVE AND SUCCESSFUL MANNER IN WHICH OXY PURSUED IT, CREATED ISSUES THAT CERTAIN COLOMBIAN BUREAUCRATS AND POLITICIANS COULD GRAB UPON AS A BASIS FOR ADVANCING THEIR OWN IMAGES. OXY AND DR. HAMMER'S INTERNATIONAL POSTURE AND SUCCESSES HAVE ONLY MADE THEM THAT MUCH MORE SUSCEPTIBLE TO SUCH ATTACK.

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THE INITIAL PROBLEMS WITH ECOPETROL AND THE FORMER MINISTER OF MINES AND ENERGY, ORIGINATED WITH THE AWARD OF THE PIPELINE CONSTRUCTION CONTRACTS TO MANNESMANN AND BECHTEL. DUE TO LOBBYING EFFORTS BY CONTRACTORS BIDDING AGAINST BECHTEL AND CRITICISMS FROM THE POLITICAL OPPOSITION, CERTAIN OFFICIALS OF ECOPETROL STARTED A CAMPAIGN OF QUESTIONING OXY'S ACTIONS AS MEANS OF ADVANCING THEIR CAREERS WITHIN ECOPETROL. THIS LINE OF CRITICISM AGAINST OXY HAS BEEN PICKED UP BY LOWER LEVELS OF MANAGEMENT IN ECOPETROL AND HAS CREATED DIFFICULTIES IN DAY TO DAY OPERATIONS TO THE EXTENT THAT THE ORIGINAL SPIRIT OF THE ASSOCIATION CONTRACTS, IS TO PROVIDE THE STATE OIL COMPANY WITH THE EFFICIENCY OF PRIVATE SECTOR, IS NOW BEING DISTORTED TOWARDS AN EXAGGERATED INTERVENTION OF ECOPETROL'S BUREAUCRACY THEREFORE CREATING A CLIMATE OF FRICTION WHERE DAILY BUSINESS AND TECHNICAL DECISIONS ARE MIXED WITH POLITICS.

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THE ABRUPT ENACTMENT OF DECREES 128 AND 196 IN EARLY 1986, PROVIDING RESPECTIVELY THAT ECOPETROL WOULD TAKE OVER OPERATION OF ALL PIPELINES IN THE NATION EXCEPT THOSE IN EXISTENCE AND GIVING ECOPETROL THE FIRST OPTION TO PURCHASE ALL OIL PRODUCED IN THE COUNTRY BEFORE IT COULD BE EXPORTED, IS THE GENESIS OF SPECIFIC ISSUES DISCUSSED HEREAFTER. DECREE 196 HAS BEEN ACCEPTABLY REGULATED, BUT THE PIPELINE OPERATION DECREE 128 IS BELIEVED TO BE PREVENTING THE CONSTRUCTION OF ADDITIONAL PIPELINES IN COLOMBIA.

CONTRIBUTING GREATLY TO THE CONTROVERSIAL SITUATION OF OXY IN COLOMBIA IS THE 1985 SALE IN THE UNITED STATES OF THE CAPITAL STOCK OF ITS SUBSIDIARY COLOMBIA CITIES SERVICE PETROLEUM CORPORATION (COLCITCO) TO SHELL. THE PUBLICITY OF THIS REPORTED ONE BILLION DOLLAR TRANSACTION ONLY GAVE FUEL TO STOCK THE BOILERS OF OXY'S CRITICS. THE SHELL TRANSACTION IS BELIEVED TO BE THE LIMITED OFFICIAL USE

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REAL REASON FOR THE CURRENT TAX ADMINISTRATION INVESTIGATION OF THE 1983 ASSIGNMENT TO COLCITCO OF 50

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TAGS: EPET, EINV, CO  
SUBJECT: INVENTORY OF OCCIDENTAL'S PROBLEMS IN COLOMBIA

PERCENT OF OXY'S INTEREST IN THE ASSOCIATION CONTRACT COVERING THE AREA IN WHICH CANO LIMON WAS DISCOVERED. WE KNOW THAT THE TAX ADMINISTRATION'S INVESTIGATION WAS FOMENTED BY THE GENERAL COMPTROLLER WHO IS CLAIMING THAT OXY HAS EVADED TAXES AND THAT MOST OF HIS AIM WILL SOON BE DIRECTED AT THE SHELL DEAL. IT IS VERY LIKELY THAT WE WILL NEXT BE CONFRONTED BY A TAX CLAIM IN RESPECT TO THE SHELL TRANSACTION, EVEN THOUGH LIKE OTHER DEALS IN COLOMBIA (E.G. THE HOUSTON OIL AND MINERALS/TENNECO DEAL), IT INVOLVED A STOCK PURCHASE IN THE UNITED STATES AND WAS ONLY RELATED TO COLOMBIA BECAUSE THE UNDERLYING COMPANY OWNED AND INTEREST IN COLOMBIA PROPERTIES.

THE FOREGOING IS THE BACKDROP FOR THE PROBLEMS AND CONTROVERSIES FACING OXY IN COLOMBIA TODAY. UPON ANALYSIS, HOWEVER, IT DEVELOPS THAT PRACTICALLY ALL OF THE ISSUES OF DISPUTE ARISE OUT OF ARBITRARY ACTIONS TAKEN BY EITHER ECOPETROL OR THE MINISTRY OF MINES AND LIMITED OFFICIAL USE

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ENERGY, WHILE OXY, ASSUMING A COOPERATIVE AND FLEXIBLE ATTITUDE, HAS BEEN ATTEMPTING TO DEFEND ITS RIGHTS UNDER EXISTENT COLOMBIAN LAWS AND ITS ASSOCIATION CONTRACTS.

## B. CONTROVERSIES BEING RESOLVED

### 1) THE ASSIGNMENT OF OXY TO COLCITCO IN 1983.

BETWEEN 1980 AND THE END OF 1982, OXY HAD CARRIED OUT AN EXPENSIVE EXPLORATION EFFORT IN THE COLOMBIAN EASTERN PLAINS WITHOUT ANY SUCCESS. FACING THE POSSIBILITY OF DRILLING ONE LAST EXPLORATORY WELL IT LOOKED FOR A PARTNER THAT WOULD BE WILLING TO SHARE THE COSTS OF DRILLING THE WELL IN EXCHANGE FOR 50 PERCENT OF OXY'S SHARE IN THE CORRESPONDING ASSOCIATION CONTRACT. SINCE NO COMPANY SHOWED ANY SERIOUS INTEREST IN THIS OFFER, OXY DECIDED TO CARRY OUT THIS ASSIGNMENT WITH ITS SUBSIDIARY COLCITCO (COLOMBIA CITIES SERVICE) WHICH HAD A SMALL OIL OPERATION IN COLOMBIA. IN CASE THE WELL HAD ENDED UP BEING DRY, THE COSTS COULD HAVE BEEN WRITTEN OFF AGAINST COLCITCO'S PROFITS.

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THE ASSIGNMENT WAS COMPLETED BEFORE THE PRESENCE OF OIL IN THE CORRESPONDING BLOCK WAS KNOWN, BUT THE GENERAL COMPTROLLER OF THE COUNTRY CLAIMS THAT OXY ALREADY KNEW THE MAGNITUDE OF THE FIELD'S OIL RESERVES WHEN THE ASSIGNMENT WAS PERFORMED AND THEREFORE SHOULD HAVE BEEN TAXED ACCORDINGLY.

THIS ACCUSATION LED THE TAX AUTHORITIES TO ISSUE A SPECIAL NOTICE CLAIMING THE VALUE OF THE ASSIGNMENT BASED ON TODAY'S VALUE OF RESERVES, AIMING AT REASSESSING OXY'S 1983 COLOMBIAN INCOME TAX STATEMENT.  
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OXY IS RESPONDING TO THIS LEGALLY AND TECHNICALLY INVALID INQUIRY.

## 2) 1985 WITHHOLDING TAXES AUDIT

ANOTHER GOOD EXAMPLE OF THE TAX ADMINISTRATION'S ONGOING EFFORT TO TAX OXY BY ALL AVAILABLE MEANS, IS THE DETAIL AUDIT IT PERFORMED OF WITHHOLDING TAXES CORRESPONDING TO 1985 AND BY WHICH IT OBJECTED TO ABOUT 14,000 DIFFERENT TRANSACTIONS. OXY PROMPTLY RESPONDED TO THESE OBJECTIONS.

## 3) THE FREE ZONE FOR THE MARINE TERMINAL

A FREE ZONE CONTRACT WAS PERFECTED WITH ALL NECESSARY GOVERNMENT APPROVALS IN JANUARY OF 1986 FOR THE CONSTRUCTION AND OPERATION OF A MARINE TERMINAL. UNDER COLOMBIAN LAW, THE ASSOCIATION (OXY/SHELL/ECOPETROL) WAS ENTITLED TO USE THIS MECHANISM, ALLOWING TO REDUCE CUSTOM'S RED TAPE AND IN TURN COMPLETE THE PROJECT WITHIN ITS SCHEDULE. IT ALSO GAVE THE ASSOCIATION SOME TIME TO RESOLVE A DISPUTE WITH THE MINISTRY OF MINES OVER AN EXONERATION OF DUTIES FOR THE TERMINAL'S EQUIPMENT.

COLOMBIAN LAW ESTABLISHES DUTY EXONERATION TO OIL PIPELINES FROM THE EASTERN PLAINS OF COLOMBIA AND THE ASSOCIATION PIPELINE HAS BENEFITED FROM THIS EXONERATION. HOWEVER, THE MINISTRY OF MINES ISSUED A RESOLUTION SEPARATING THE MARINE TERMINAL FROM THE PIPELINE, ALTHOUGH THEY ARE BOTH ONE SINGLE CONTINUOUS SYSTEM. THIS RESOLUTION WAS AIMED AT FORCING THE ASSOCIATION TO PAY DUTIES FOR THE TERMINAL FACILITIES.

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OXY HAS LEGAL EXPERT OPINION THAT SUCH TREATMENT IS DISCRIMINATORY BECAUSE: A) THE MARINE TERMINAL CANNOT BE TECHNICALLY SEPARATED FROM THE REST OF THE PIPELINE SYSTEM; B) EVEN IF SEPARATED, THE TERMINAL SHOULD BE LIMITED OFFICIAL USE

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DUTY FREE (ALL OTHER TERMINALS PREVIOUSLY BUILT IN THE COUNTRY HAVE BEEN EXONERATED); C) THE FINAL DECISION WHETHER THE EXONERATION SHOULD APPLY OR NOT CANNOT REST

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SOLELY ON THE OPINION OF AN OFFICIAL OF THE MINISTRY OF MINES.

THE COUNTRY'S GENERAL COMPTROLLER CLAIMS THAT OXY USED THE FREE ZONE TO AVOID PAYING CUSTOM DUTIES. TO PUT AN END TO HIS CONTROVERSY, OXY HAS AGREED TO GRADUALLY END THE USE OF THE FREE ZONE MECHANISM FOR THE TERMINAL AND NATIONALIZE ALL THE RELATED FACILITIES.

4) PIPELINE OPERATION

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EARLY IN 1986, AFTER CONTINUOUS CRITICISM FROM VILLAREAL (FORMER ECOPETROL PRESIDENT) IN THE LOCAL NEWS AND IN A NEWSWEEK ARTICLE, ACCUSING THE GOVERNMENT OF FAVORING OXY AND AGREEING TO BUILD THE CANO LIMON - COVENAS PIPELINE ONLY FOR OXY'S BENEFIT, THE MINISTRY OF MINES DECIDED TO ASSIGN BY DECREE (128) THE PIPELINE OPERATION TO ECOPETROL. THE CORRESPONDING DECREE VIOLATED OXY'S LIMITED OFFICIAL USE

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ACQUIRED RIGHTS UNDER THE ASSOCIATION CONTRACT AND NOW THE NEW GOVERNMENT FACES THE PRIVATE OIL INDUSTRY'S RELUCTANCE TO INITIATED NEW PIPELINE PROJECTS.

OXY CHALLENGED THE DECREE IN COURT, BUT UNTIL A FINAL VERDICT IS REACHED (IT COULD TAKE SEVERAL YEARS) HAS AGREED TO COOPERATE IN THE TRANSFER OF THE PIPELINE OPERATION TO ECOPETROL, KEEPING IT UNDER THE ASSOCIATION CONTRACT AND ACCORDING TO THE SAME RULES THAT APPLY TO OXY FOR THE FIELD OPERATION. OXY HAS BEEN INSISTING IN THE NEED TO NEGOTIATE AN OPERATING AGREEMENT FOR THE PIPELINE OPERATION WHICH WOULD CONTAIN UNIVERSALLY ACCEPTED CONDITIONS FOR THIS TYPE OF OPERATION. ECOPETROL HAS PROPOSED SIGNING ONLY A GENERAL AMENDMENT TO THE ASSOCIATION CONTRACT THEREBY FORMALIZING THEIR RIGHT TO OPERATE THE PIPELINE REGARDLESS OF WHAT BECOMES OF THE DECREE THAT TOOK AWAY OXY'S RIGHT TO OPERATE THE PIPELINE. THIS WOULD FREE THE GOVERNMENT TO REVOKE THE DECREE OR LET IT DIE IN COURT, WITHOUT HAVING TO REVERT THE OPERATORSHIP TO OXY AND TO ALLOW ECOPETROL COMPLETE AUTONOMY AS TO THE MANNER IN WHICH THE PIPELINE IS OPERATED.

5) THE COST OF THE FLOATING STORAGE UNIT

AFTER HAVING IDENTIFIED TOGETHER WITH ECOPETROL THE CONVENIENCE OF CONSTRUCTING A MARINE PIPELINE TERMINAL OVER THE ALTERNATIVE OF AN ONSHORE FACILITY, BIDS WERE OPENED TO BUILD THE CANO LIMON TO COVENAS PIPELINE AND ITS TERMINAL ON A TURNKEY, LUMP SUM BASIS. HOWEVER, GIVEN THAT AT THE TIME OF THE BID AWARDS THE COST OF A NECESSARY FLOATING STORAGE UNIT (FSU) FOR THE TERMINAL COULD NOT BE DEFINED BY ANY OF THE CONTRACTORS, IT WAS LIMITED OFFICIAL USE

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DECIDED TO USE THE SAME PROVISIONAL SUM TO EVALUATE ALL BIDS, THUS PLACING BIDDERS ON EQUAL CONDITIONS. THE CONTRACT WAS AWARDED WITH THE PROVISION THAT THE TANKER PRICE WOULD BE ESTABLISHED AFTER ITS PURCHASE AND ONCE THE DESIGN OF ITS CONVERSION INTO A STORAGE UNIT WAS PERFORMED UNDER OXY'S SUPERVISION. IT TURNED OUT THAT THE FINAL ACTUAL COST WAS \$70 MM COMPARED TO THE \$26 MM FIGURE USED PROVISIONALLY FOR BID EVALUATION PURPOSES.

ALTHOUGH ECOPETROL'S TECHNICIANS AND MANAGEMENT ACTIVELY PARTICIPATED IN THE DETAILED BID ANALYSES AND CONTRACT AWARD PROCEDURES, ECOPETROL'S BOARD, SUBJECT TO POLITICAL PRESSURES, REPEATEDLY REFUSED TO SHARE ANY OVERCOSTS. SINCE THE PROJECT'S SCHEDULE AND THE RELATIONS WITH ECOPETROL AND THE MINISTRY OF MINES WERE AT STAKE, OXY AND SHELL ACCEPTED TO PICK UP FOR THEIR ACCOUNT ALL OF THE TANKER'S OVERCOSTS IN EXCESS OF \$32 MM, THEREBY PUTTING AN END TO THE CONTROVERSY. AS IT TURNED OUT, ECOPETROL HAS BEEN USING THE FSU FACILITIES FOR ITS OIL EXPORTS ON A 50/50 BASIS ALTHOUGH IT HASN'T PAID FOR THE COST OF A 50 PERCENT EQUITY ON THE FLOATING STORAGE UNIT. IN SPITE OF ALL THE BENEFITS THAT ECOPETROL IS RECEIVING FROM THE USE OF THIS TERMINAL AND THE JUSTIFICATION FOR THE OVERCOSTS, OUR CRITICS STILL INSINUATE THAT WE TOOK ADVANTAGE OF ECOPETROL.

## 6) CRUDE SALES AGREEMENT

EARLY IN 1986, THE PREVIOUS COLOMBIAN GOVERNMENT ISSUED A DECREE (196) THAT CREATED VARIOUS UNCERTAINTIES RELATIVE TO THE PRIVATE COMPANY'S RIGHTS REGARDING THE SALE OF THEIR PRODUCTION SHARE, AS ESTABLISHED IN THE ASSOCIATION CONTRACTS. THANKS TO CONSIDERABLE LOBBYING EFFORTS BY OXY, INDEPENDENTLY AND TOGETHER WITH THE INDUSTRY, THIS DECREE WAS FAVORABLY REGULATED INCORPORATING BASICALLY ALL OF OXY'S POSITION, IN THE LIMITED OFFICIAL USE

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SENSE OF BEING ALLOWED TO EXPORT THEIR SHARE OF PRODUCTION ONCE THE COUNTRY'S INTERNAL CONSUMPTION WAS FULFILLED AND RECEIVING A FAIR PRICE, ACCORDING TO

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SUBJECT: INVENTORY OF OCCIDENTAL'S PROBLEMS IN COLOMBIA

INTERNATIONAL MARKET CONDITIONS, FOR THE OIL PURCHASED  
BY ECOPETROL FOR INTERNAL REFINING.

HOWEVER, WHILE NEGOTIATING A SALES CONTRACT FOR INTERNAL  
REFINING, ECOPETROL WANTS EXTENDED PAYMENT TERMS  
SIGNIFICANTLY LONGER THAN THE NORMAL INTERNATIONAL  
BUSINESS PRACTICE (60 DAYS VERSUS 30 DAYS), EVEN THOUGH  
ECOPETROL ITSELF DEMANDS TIGHT PAYMENT TERMS FOR THEIR  
OIL SALES. THIS INEQUITY WOULD COST OXY AND SHELL 19  
CENTS PER BARREL, AN UNACCEPTABLE PENALTY.

## C. POTENTIAL NEW CONTROVERSIES

### 1) PIPE FOR THE SUBMARINE PORTION OF THE PIPELINE

IT HAS COME TO OXY'S ATTENTION THAT THE MINISTRY OF  
MINES' HYDROCARBON DIVISION IS INSTIGATING THE CUSTOMS  
OFFICE TO REVOKE A CUSTOMS DUTY EXONERATION THAT HAD  
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ALREADY BEEN GRANTED TO THE ASSOCIATION  
(OXY/SHELL/ECOPETROL) FOR THE PIPE USED IN THE MARINE

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PORTION OF THE PIPELINE. THIS EXONERATION HAD EVEN BEEN APPROVED BY THE MINISTRY'S HYDROCARBON DIVISION, BUT NOW THE HYDROCARBON DIVISION ARGUES THAT THE PIPE EXONERATION WAS APPROVED ON THE BASIS THAT IT WOULD BE USED FOR THE ONSHORE PORTION OF THE PIPELINE BUT NOT FOR THE OFFSHORE OR TERMINAL PORTION WHICH ACCORDING TO THEM IS NOW A SEPARATE AND DIFFERENT UNIT.

## 2) 1985 TRANSACTION WITH SHELL

IN 1985, OXY SOLD ITS SUBSIDIARY COLCITCO (COLOMBIA CITIES SERVICE) TO SHELL BY MEANS OF A STOCK TRANSACTION OUTSIDE OF COLOMBIA. SINCE COLCITCO OWNED HALF OF OXY'S INTERESTS IN THE CANO LIMON PROJECT, THE GENERAL COMPTROLLER NOW CLAIMS THAT A COLOMBIAN ASSET WAS SOLD AND THEREFORE TAXES SHOULD HAVE BEEN PAID IN COLOMBIA. ALTHOUGH THE COMPTROLLER KNOWS THAT BEING ON OFFSHORE TRANSACTION LEGALLY IT CANNOT BE TAXED IN COLOMBIA, HE CAN AT LEAST CREATE NOTORIETY FOR HIMSELF TO FURTHER HIS POLITICAL ASPIRATIONS.

THIS HAS BECOME SUCH AN ATTRACTIVE POLITICAL ISSUE THAT EVEN THE PRESIDENT OF ECOPETROL (OXY'S STATE "PARTNER") HAS PUBLICLY INDICATED THAT OXY SHOULD BE INVESTIGATED FOR THIS TRANSACTION, SINCE "EVERYONE WHO MAKES A PROFIT IN COLOMBIA HAS TO PAY TAXES".

## D. OTHER ISSUES - ADVERSE PUBLICITY AND UNFOUNDED RUMORS

### 1) THE ASSOCIATION (OXY/SHELL/ECOPETROL) PIPELINE

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AMONG OTHER CRITICISMS AGAINST THE PROJECT, IT HAS BEEN STATED THAT A PORTION OF THE PIPELINE (BETWEEN AYACUCHO AND COVENAS) WAS NOT NECESSARY SINCE THERE WERE TWO OTHER PIPELINES IN THE SAME ROUTE. THE FACTS HAVE PROVEN THIS CRITICISM TO BE TOTALLY UNFOUNDED. THE ASSOCIATION'S PIPELINE HAS ALREADY BEEN USED TO ITS CAPACITY ONLY TO TRANSPORT CANO LIMON OIL, WHILE THE OTHER EXISTING OLD LINES HAVE ALSO BEEN USED TO CAPACITY TO TRANSPORT OIL FROM OTHER FIELDS.

IT HAS ALSO BEEN SAID THAT ECOPETROL MADE A BAD DEAL SINCE THE PRIVATE COMPANIES ARE THE ONLY ONES THAT

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BENEFIT WITH THE PIPELINE. HOWEVER, ECOPETROL HAS BEEN THE MAIN USER OF THE ASSOCIATION PIPELINE, BEING THE OWNER OF 60 PERCENT OF THE OIL TRANSPORTED WHILE OWNING ONLY A 50 PERCENT EQUITY. ON THE OTHER HAND, OXY ASSISTED ECOPETROL IN FINANCING ALL ITS SHARE IN THE PIPELINE INVESTMENT BY PUTTING TOGETHER A COMPLEX BUT ATTRACTIVE NETWORK OF INTERNATIONAL CREDITS AND HELPED ECOPETROL ESTABLISH ITSELF AS A CREDIT WORTHY ENTITY. ECOPETROL'S SHARE IN THE PROJECT'S NET CASH FLOW WILL COMFORTABLY ALLOW IT TO SERVICE AND REPAY THE CORRESPONDING DEBT.

## 2) ADVANCED PURCHASE OF TUBULARS FOR BECHTEL

PRIOR TO THE CONTRACT AWARD FOR CONSTRUCTING THE SECOND PORTION OF THE ASSOCIATION PIPELINE, A SHORTAGE OF PIPE WAS ANTICIPATED DUE TO THE INITIATION OF A BIG PIPELINE PROJECT IN THE MIDDLE EAST. CONSIDERING THE IMPACT THAT THIS WAS GOING TO HAVE ON PIPE PRICES AND DELIVERIES, OXY, WITH THE AGREEMENT OF THE MINISTRY OF MINES AND ECOPETROL, PLACED THE ORDER FOR THE PIPE WITH JAPANESE MILLS BASED ON QUOTAS IN THE BECHTEL BID. OXY PLACED THIS ORDER AT ITS SOLE RISK AND ASSUMING ALL CANCELLATION COSTS IF THE PROJECT DIDN'T MATERIALIZE.

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THE AGREEMENT ALSO STIPULATED THAT ANY CONTRACTOR BIDDING FOR THIS PROJECT WOULD HAVE ACCESS TO THE USE OF THESE TUBULARS.

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INFO	LOG-00	COPY-01	ADS-00	AID-00	INR-10	SS-00	CIAE-00
	EB-08	DINT-05	DODE-00	H-01	NSAE-00	COME-00	L-03
	TRSE-00	PM-10	OPIC-07	CEA-01	OMB-01	STR-17	FRB-03
	OES-09	ACDA-12	USIE-00	JUSE-00	SP-02	DOEE-00	SNP-01
	CEQ-01	PRS-01	/093 W				

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E.O. 12356: N/A  
TAGS: EPET, EINV, CO  
SUBJECT: INVENTORY OF OCCIDENTAL'S PROBLEMS IN COLOMBIA

ALTHOUGH OXY'S INITIATIVE SAVED MONEY FOR THE ASSOCIATION AND KEPT THE PROJECT ON SCHEDULE, THE GENERAL COMPTROLLER PRESUMED THAT OXY HAD PURCHASED THE PIPE IN ADVANCE TO MAKE A PROFIT AND FAVOR BECHTEL.

3) UNFOUNDED RUMORS ON PAYMENTS TO GUERRILLAS AND GOVERNMENT OFFICIALS

THERE HAVE BEEN RUMORS SUGGESTING THAT TO COMPLETE A PROJECT OF SUCH MAGNITUDE IN SUCH A SHORT TIME, GIVEN THE DIFFICULT GEOGRAPHIC, SECURITY, RED TAPE AND POLITICAL CIRCUMSTANCES, MAIN CONTRACTORS AND EVEN OXY MUST HAVE HAD TO PAY OFF GUERRILLAS AND EVEN BRIBE GOVERNMENT OFFICIALS. HOWEVER, OXY HAS BEEN RIGOROUS IN ASSURING THAT ALL COLOMBIAN AND U.S. LAWS ARE STRICTLY FOLLOWED. NO INVESTIGATIONS HAVE BEEN INITIATED IN THIS REGARD. END TEXT.

GILLESPIE

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